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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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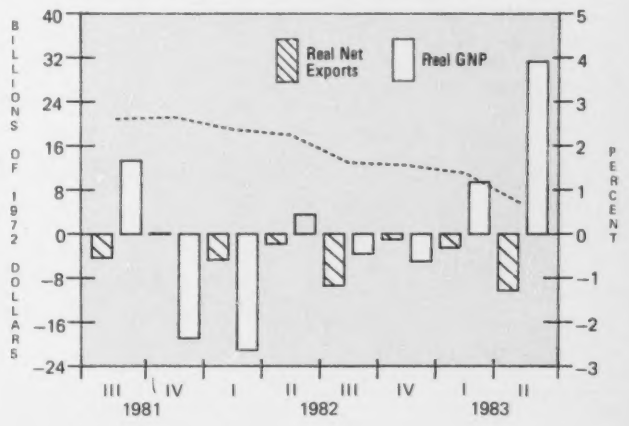
More Funds For The IMF . . .

Last week's vote by the House of Representatives to increase the U.S. contribution to the International Monetary Fund (IMF) will have wider effects than may appear at first glance. In addition to paving the way toward an easing of the external debt service problems of several developing countries (LDCs), an increase in the IMF's resources, and the private funds which they will attract, should help to reverse the downward momentum of world trade. Not only has the global recession reduced LDC exports to the industrial nations, but the diversion of much of their available foreign exchange to debt service by the LDCs has caused their imports to plummet as well. For example, in the 12-month period ending April, 1983, Mexico's total imports were an astonishing 56 per cent below the preceding 12-month period, while Brazil's imports were off by about 14 per cent.

U.S. exports have been particularly hard-hit as a result of the world recession, the strong dollar and the decline in trade-related lending. Between 1970 and 1980, the percentage of gross national product going into U.S. exports about doubled from 4.4 per cent to 8.4 per cent. Last year, however, U.S. merchandise exports fell in value for the first time in almost 25 years. But in spite of the sharp drop, exports were still about seven per cent of GNP. Although our merchandise exports to all overseas areas have fallen sharply in the last 14 months, U.S. exports to the LDCs, particularly those in Latin America, have suffered the most. In 1982, U.S. merchandise exports to the non-oil LDCs, which had reached $74 billion (32 per cent of total U.S. exports) in 1981, had declined to $65 billion; in the first five months of this year they slipped further, to an annual rate of $58 billion—22 per cent below the 1981 level. In the same period, U.S. exports to Mexico, our third largest trading partner in terms of both imports and exports, plummeted by about 52 per cent, while U.S. exports to Brazil had fallen over 39 per cent. By contrast, U.S. exports as a whole are now running 15 per cent below the 1981 level.

During the recent U.S. recession which ran from the middle of 1981 to the end of 1982, U.S. real GNP fell by almost $32 billion. In the same period, U.S. real net exports dropped almost $21 billion—contributing two thirds of the decline (see chart). From the end of the fourth quarter of 1982 to the end of this year's second quarter, however, U.S. real GNP rose by $41 billion, while at the same time U.S. net real exports fell a further $13 billion. Clearly, U.S. exports are not contributing to the present recovery.

QUARTERLY DOLLAR CHANGES IN REAL NET EXPORTS AND REAL GNP (BARS) VS. REAL NET EXPORTS AS A PERCENT OF REAL GNP (LINE)



. . . Will Help World Trade . . .

The impact of the decline in U.S. exports is widespread throughout the U.S. economy. In recent years, about 20 per cent of U.S. industrial production and about 40 per cent of agricultural production have been exported. Further, about one worker in 12 (including about 24 per cent of agricultural workers) is directly or indirectly dependent on exports for his job. In 1980, over six million U.S. jobs were directly related to exports. But as export volume dropped, the number of export-related jobs dropped to five million, contributing some 40 per cent to the rise in U.S. unemployment from 1980 through 1982. According to the Commerce Department, each $1 billion of U.S. exports generates over 25,000 jobs. On this basis, the decline in U.S. exports to Mexico between 1981 and 1982 probably

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cost the U.S. economy 150,000 jobs with another 50,000 lost because of falling exports to Argentina and Brazil. Overall, the loss of some 525,000 jobs can be attributed to the drop in U.S. exports in 1982 alone.

Some of the industries most adversely affected by the decline in merchandise exports to the LDCs are industries already hard-hit by the recession in other developed countries, intensive foreign competition and, to some degree, technological obsolescence. For example, in 1982 exports of automotive vehicles and parts to the 11 principal Latin American countries (including Argentina, Brazil and Mexico) amounted to $2.3 billion, down 33 per cent from the previous year. In the first five months of this year, automotive exports to these countries were down a further 42 per cent to an annual rate of $1.3 billion. Nonelectrical machinery including industrial machinery, construction and oil drilling equipment, which is the largest single category of merchandise exports to Latin America, is now being exported at about half of last year's rate. Wheat exports to the 11 largest Latin American countries are also running about 24 per cent below last year in spite of the fact that agricultural exports are considered to be less compressible than manufactured goods. U.S. exports of consumer goods to

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/27/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	152.776	– 1.721	+11.566
Loans to Depository Inst.	1.389	+ .156	+ .841
Float	1.569	– .015	– .185
Total Reserve Bank Credit	164.426	– 1.781	+11.847
Treasury Deposits with Federal Reserve Banks	4.517	+ 1.208	+ 1.159
Currency Outside Banks	142.562	– 2.374	+11.658
Member Bank Reserves:			
Required	38.891	– .623	– 1.166
Excess (Deficiency)	.369	+ .064	+ .058
Total Reserves Held	39.260	– .559	– 1.108
Net Borrowed Reserves	.353	+ .064	+ .328
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	111.874	+ .212	+16.023
Monetary Aggregates†		**% Change Since Three Months Ago***	**% Change Since Year Ago**
M1	517.3	+ 15.5‡	+ 13.4‡
M2 (June '83)	2,114.6	+ 8.6	+ 13.4
M3 (June '83)	2,498.8	+ 8.5	+ 10.6
Domestic Nonfinancial Debt (1st Q'83)	4,855.3	+ 8.9	+ 9.8

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 8/5/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	9.00%	9.60%	9.30%
* Federal Agencies	9.65	9.88	10.17
* Project Notes–Taxfree (46% Taxable Equivalent)	8.50	10.28	11.02
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	9.90	10.45	11.15

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	9.25%	Sep.	9.55%
15- 29 days	9.50	Oct.	9.60
30- 59 days	9.50	Nov.	9.75
60- 89 days	9.63	Dec.	9.85
90-179 days	9.63	Jan.	9.95
180-239 days	9.63	Feb.	10.00
240-270 days	9.63		

‡ Industrial Paper–Prime			
30- 89 days	9.60%	† Federal Funds Effective Rate	9.60%
90-120 days	9.65		

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'83	$ 3,274	$ 3,172	$ 3,070
Gross National Product (1972 Dollars)*	2nd Q'83	$ 1,521	$ 1,490	$ 1,489
Percent Change, Annual Rate	2nd Q'83	8.7	2.6	0.9
Change in Consumer Prices (new series)*	Jun '83	2.4%	6.0%	13.2%
Change in Producer Prices*	Jun '83	6.0%	3.6%	12.0%
Civilian Employment (Thousands of Persons)†	Jul '83n	101,285	100,786	99,588
Unemployment as % of Civilian Labor Force†	Jul '83n	9.5%	10.0%	9.8%
Personal Income*	Jun '83	$ 2,734	$ 2,721	$ 2,573
Leading Indicators Composite Index (1967=100)†	Jun '83n	155.9	154.3r	135.5
Industrial Production Index (1967=100) †	Jun '83	145.9	144.3	138.7
Net Change in Consumer Installment Credit †	May '83	$ 2.70	$ 2.27	$ 1.84
U.S. Merchandise Trade Balance †	Jun '83n	–$ 4.96	–$ 6.91	–$ 3.31
Plant and Equipment Expenditures*	3rd Q'83	$306.83(a)	$302.23(a)	$315.79
Private Housing Starts (Thousands of Units)*	Jun '83	1,747	1,799	910
New Construction Expenditures*	Jun '83n	$ 259.7	$ 253.2r	$ 233.4
Total Business Inventories †	May '83	$ 506.5	$ 504.8	$ 519.1
Total Business Sales †	May '83	$ 363.1	$ 351.4	$ 353.1

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

the major Latin American nations have also suffered. For example, shipments abroad of household appliances are now running 43 per cent below last year's level and a hefty 77 per cent below 1981.

. . . And Create More U.S. Jobs

It would therefore seem that, once the IMF funding bill is passed by the Congress and signed by the President, the beneficial effects of an improving financial environment for the high-debt LDCs will be widespread. Not only will the anxieties on the part of both borrowers and lenders about servicing existing debt be ameliorated to a substantial degree, but the resulting increased access to additional financing from private sources will allow essential exports to the LDCs to rise. In particular, capital goods, which make up a substantial portion of U.S. exports and which are essential for the LDCs in order for them to increase their export capabilities, should benefit—adding jobs in the U.S. economy. Because exports are the principal means of earning foreign exchange for the LDCs, for any solution to their external debt repayment difficulties to be viable, it must include a revitalization of world trade. The $8.4 billion U.S. contribution to the IMF, which is 20 per cent of the total $43 billion package agreed to by IMF members early this year, will allow for increased trade-related financing. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (7/20/83)	93,965	– 572	–48,740
New York City (7/20/83)	22,095	– 112	–13,234
Commercial Paper (7/20/83)	173,404	+ 971	– 9,368*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/20/83)	214,395	+ 147	+ 3,252
New York City (7/20/83)	58,494	– 267	– 974

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/20/83)	504,890	+ 561	+13,284
New York City (7/20/83)	116,796	– 94	+ 3,307

Financial Markets

	Friday 8/5/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.75%	+ .15	– .97
180-Day Bills†	10.20	+ .10	– 1.73
Longest Bills†	10.65	+ .15	– .86
Recent Issues:			
10⅝s 7/31/85	11.20	+ .15	
10½s 6/30/87	11.65	+ .15	
10⅛s 5/15/93	12.10	+ .35	
12s 8/15/13 (When Issued)	12.10	NA	
Municipals:			
Bond Buyer–20 Bond Index* (8/4/83)	9.74%	+ .14	– 2.13
Blue List Total ($ Million)	$1,191	+ $ 19	+ $ 278
30-Day Visible Supply ($ Million)	$3,043	– $ 25	+ $ 753
Total	$4,234	– $ 6	+ $1,031
Corporates:			
Moody's Aa Composite (8/4/83)	12.84%	+ .31	– 2.05
30-Day Visible Supply ($ Million)	$ 655	– $100	– $ 745
Stocks:			
Dow-Jones Averages:			
Industrials	1,183.29	– 15.93	+ 398.95
Transportation	542.43	– 8.34	+ 245.37
Utilities	129.09	– .68	+ 24.58
65 Stocks	469.92	– 6.09	+ 167.37
Standard and Poor's 500 Stocks	161.74	– .82	+ 58.03
N.Y.S.E. Composite Index	93.60	– .67	+ 33.91
N.Y.S.E. Avg. Daily Vol. for Week (000's)	80,238	– 7,342	+ 25,984

* 46% Taxable equivalent 18.04%. † Bond equivalent.

International Rates

	Friday 8/5/83	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	9.56%	9.38%
1 month	9.94	9.75
3 month	10.50	10.13
6 month	10.88	10.63
1 year	11.13	10.82
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	12.25%	11.75%
Long Term (7 to 15 yrs.)	12.00	11.85

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/5/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01858	53.82
Canada	.8098	1.2348
Denmark	.1036	9.6555
France	.1236	8.0880
Germany	.3722	2.6870
Italy	.0006269	1595.00
Japan	.004088	244.60
Mexico	.00670	149.25
Netherlands	.3331	3.0018
Switzerland	.4602	2.1730
U.K.	1.4800	.6757

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